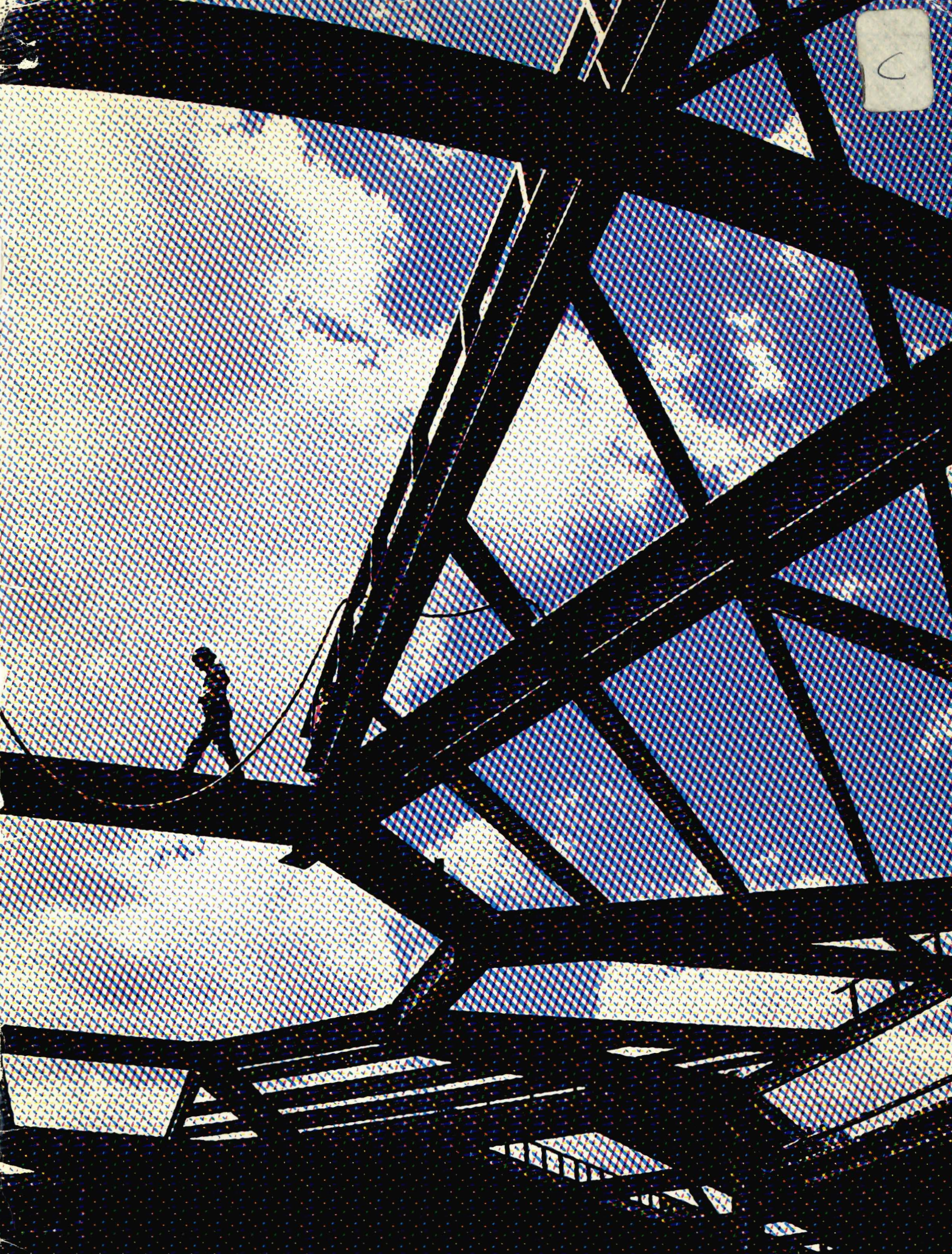




LOBLAW COMPANIES LIMITED ANNUAL REPORT 1986

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REPORT THEME

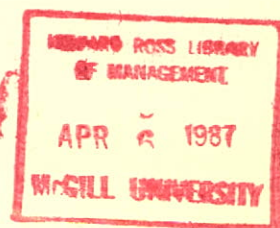


W. Galen Weston
W. Galen Weston
Chairman of the Board
Loblaw Companies Limited



Richard J. Currie
Richard J. Currie
President
Loblaw Companies Limited

The theme of this year's Annual Report is your Company's thrust to the 90's through a major capital investment program. This year, Loblaw Companies Limited, in support of a seasoned management team, has spent a total of \$371 million as part of a carefully planned and balanced program of focused acquisitions and expansion of internally proven concepts. Shorter term, some sacrifice in earnings and return on investment growth rates has been required. Longer term, the implications of this capital investment program on earnings, return on investment and business risk are positive and profound.



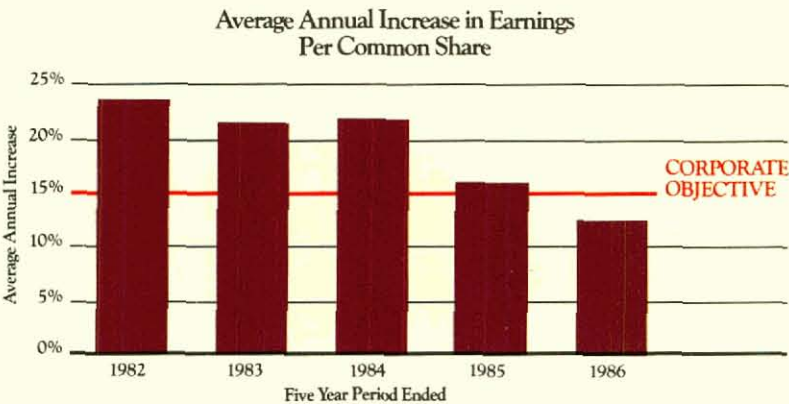
CORPORATE PHILOSOPHY
AND OBJECTIVES

To maintain a reputation of being a good company, worthy of the trust placed in us by our shareholders, our employees, our customers, our creditors, our suppliers and our communities.

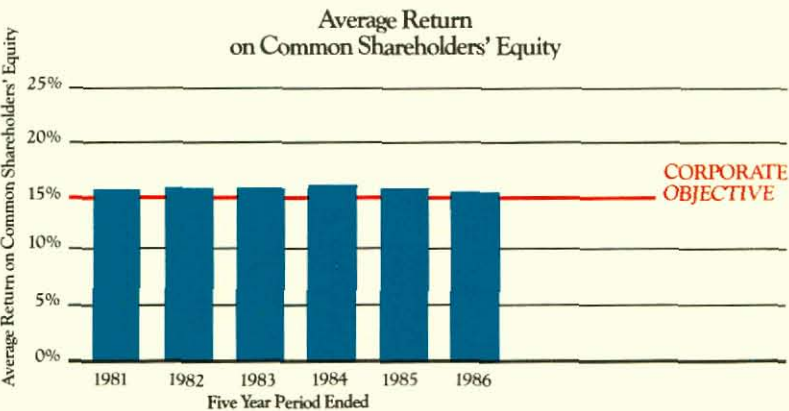
To develop excellence through a blend of operating consistency and marketing innovation.

To keep growth rates and risk levels balanced by operating in retail and wholesale businesses and in several geographic markets.

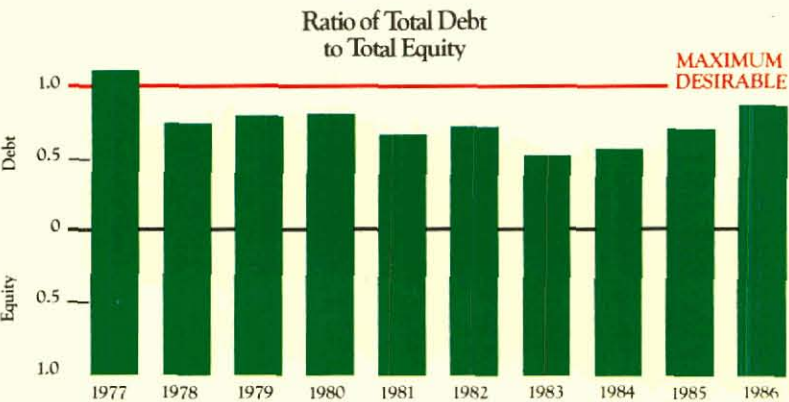
To increase earnings per common share at an average rate of 15 percent per year over any five year period.



To provide an average return on common shareholders' equity of 15 percent per year over any five year period.



To have less total debt than total equity in the business.



FINANCIAL HIGHLIGHTS

		1986	1985	1984
OPERATING RESULTS (\$ millions)	Sales	7,839	6,931	6,419
	Trading profit*	249	225	205
	Operating income	163	152	138
	Earnings before income taxes	118	115	109
	Earnings before extraordinary item	74	67	61
	Net earnings	74	67	64
FINANCIAL POSITION (\$ millions)	Total debt	569	390	283
	Total shareholders' equity	655	521	466
	Total assets	1,978	1,530	1,264
CHANGES IN FINANCIAL POSITION (\$ millions)	Cash flow from operations	204	132	60
	Purchase of owned fixed assets and properties for development	289	192	148
PER COMMON SHARE (dollars) (Adjusted to reflect the two-for-one share split in 1986.)	Earnings before extraordinary item	0.91	0.85	0.77
	Net earnings	0.91	0.85	0.81
	Cash flow	2.86	1.85	0.84
	Book value	6.68	5.85	5.09
	Actual dividends paid	0.175	0.155	0.135
	Year end dividend rate	0.18	0.16	0.14
	Price range - high	14.00	12.13	9.75
	- low	11.00	8.00	6.57
FINANCIAL RATIOS	Return on common equity	14.6%	15.6%	16.3%
	Return on capital employed	14.3%	17.0%	18.1%
	Pretax return on sales	1.5%	1.7%	1.7%
	Working capital ratio	1.27:1	1.20:1	1.26:1
	Total debt to equity	0.87:1	0.75:1	0.61:1

*Trading profit is defined as earnings before depreciation, interest and income taxes.

CHAIRMAN'S REPORT TO SHAREHOLDERS

1986 was a tough and demanding year but one of enormous accomplishment for Loblaw Companies. Sales and earnings established new records although the financial obligations of the record capital investments of 1985 and 1986 were significant. These increased costs in terms of interest and depreciation as well as heightened competitive activities both in conventional stores and in response to our combination store launches made profit increases difficult, but they were achieved.

An ambitious capital investment program of combination store development and conventional stores construction and refurbishment was augmented by acquisitions, as a number of once important competitors decided to withdraw and were acquired in whole or in part. These acquisitions made in 1986 and early 1987 were of great strategic significance to our Company. In Ontario, the wholesale acquisition will provide a critical mass for our franchised operations in that province. In Halifax, the acquisition of several high velocity food stores will be a good fit with our planned 1987 combination store entry into that market. United States operations have steadily improved over a number of years, while our commitment was constantly tested. The St. Louis acquisition followed a brutal price war and established our retail operating credibility in the United States near term, and our potential in that country longer term.



Our wholesale companies and our conventional supermarket units continue to perform well. The push here is into the fast growing perishable areas and computer assisted merchandising programmes. These in turn tie in naturally with the management of the "no name" and "President's Choice" programmes as this range of high quality products unfolds.

For the future, the results of our actions of the last two years will show initially in 1987 in the form of sharply increasing sales with subsequent corresponding earnings improvements.

We are the largest food distribution company in Canada and have the largest United States operations of any Canadian distributor. 1986 however, marked the first year in a decade that your Company has had any substantial increase in total selling footage. This is a significant statistic and supports the view that the Company is now strongly positioned for growth.

While share values have risen dramatically in recent years, I still believe that there is no better place to invest in food distribution in Canada and it gives me great pleasure on behalf of the Board of Directors to thank customers, employees and shareholders alike for their continued support.

W. Galen Weston

W. Galen Weston
Chairman of the Board
Loblaw Companies Limited



Acquisitions

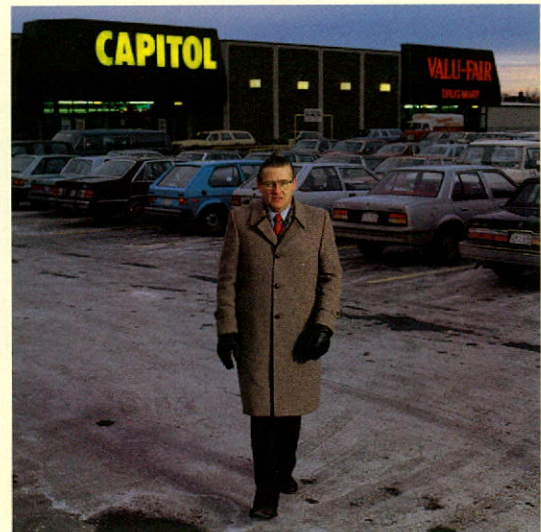
Carefully focused acquisitions have been a major component of the capital investment program. The pictures here and on the following two pages show some of the highlights.

Opposite page:
Al Cross (centre), Senior Vice President and Division Manager for the St. Louis Division of National Tea is shown here with some of the key people in his division, as in the background a National sign goes up on one of the 26 newly-acquired Kroger stores.

Left:
A manager lends a hand at the checkout in the early hectic days of the well co-ordinated changeover in St. Louis.

Bottom left and right:
Albert Rose, President of Atlantic Wholesalers Ltd. is pictured here at the newly acquired Capitol Store on Young St. in Halifax. This 6 store acquisition of a strong local chain with an excellent reputation in its market was a very good fit with the existing Atlantic business.

Below:
Sales are brisk at the Young St. Capitol Store.



PRESIDENT'S REPORT

The year 1986 represented another year of substantial growth and improved market positioning for Loblaw Companies Limited. Sales improved 13.1 percent to \$7.84 billion, a new high for the Company, while operating income and earnings before extraordinary items improved to record levels for the tenth consecutive year.

This level of performance, we believe, is directly a result of steadily improving productivity on a store-by-store, warehouse-by-warehouse and category-by-category basis. Concentration on improved productivity rather than increasing market share is the essence of the business strategy of Loblaw Companies in all its markets.

Improvements on a store basis are evidenced by steadily increasing sales per square foot, from \$400 in 1984, to \$432 in 1985, to \$457 in 1986, while average corporate store size was also increasing - from 24,100 sq. ft. in 1984, to 25,300 sq. ft. in 1985, to 28,400 sq. ft. in 1986. Over that same time period, labour productivity, as measured by gross profit per employee labour dollar, has also improved, increasing by 4.2 percent. Such improvements in productivity cannot be achieved without an understanding of the dynamics of productivity and the competitive nature of the industry. Over the past few years, our employees and many of their union leaders have shown an increasing understanding of the direct connection between productivity and job security.

Category-by-category productivity is obtained by offering customers a superior controlled label - "no

name" or "President's Choice". Such products provide high value to the customer at lower total cost to the business. It also gives a uniqueness to your Company's stores by offering products which are unavailable at other places. This uniqueness helps improve per customer sales and increase productivity on a per-customer-served basis.

In many ways, however, the product we offer our customers is our stores - stores which are individually designed to meet the needs of the customers in a served market. The many store formats we use are merely a manifestation of the many customer groups whose everyday household needs we attempt to meet.

Based on its continued record of improved productivity and store format development, your Company has now embarked on the largest capital investment program in its history.





Although not completed until 1987, the acquisition of 58 Mr. Grocer franchise accounts will significantly strengthen our wholesale business in Ontario.

Opposite page:
A Mr. Grocer store in north Toronto.

Acquired early in 1986, the seafood trade and expertise of Kotok & Heims was an important addition to the existing strong wholesale business in Buffalo.

Left:
Mark Kotok (centre) former President of Kotok & Heims is now Vice President and General Manager of Sea Systems.

Below:
This facility now gives Peter J. Schmitt the ability to assure quality and freshness to its customers in seafood, a category of increasing importance to Loblaw Companies and the North American shopper.





Beginning in 1985 and ending in 1989, your Company will spend over \$1.4 billion in capital improvements and acquisitions. Of this amount, \$371 million was spent in the past year. For the year 1986, the investment can be broken out as follows:

	(in millions)
Combination stores	\$127
Corporate supermarkets	91
Acquisitions	82
Wholesale facilities	56
Data processing, administration and services	<u>15</u>
	<u>\$371</u>

In the past two years capital investments totalled \$584 million. Of this amount, 33 percent has been spent on combination stores, 29 percent on corporate supermarkets, 17 percent on acquisitions, 14 percent on wholesale facilities and 7 percent on data processing, administration and services. For the year 1986, 11 percent of total sales of \$7.84 billion was related to combination stores.

As part of this capital program, it is our intention to own as much of the real estate as possible - leasing only when operating terms as flexible as those of ownership can be obtained. It is our policy to own assets which have historically appreciated in value and to lease those assets which depreciate in value. This policy is giving rise to additional financial strength which is not readily apparent from the balance sheet. If the excess of the

estimated market value of our owned real estate over its book value were included in equity, our debt/equity ratio would be 0.70:1 and not the 0.87:1 recorded on the year end accounts. A relatively small portion of this excess of market value over book value is currently contributed by ancillary retail space that the Company owns adjacent to its combination stores. Current plans call for ancillary space with a cost of approximately \$31 million to be opened in 1987. For these properties, it is estimated that the increment in market value over book value will be in the order of 100 percent, a direct reflection of lease values. As it is not the Company's intention to sell this ancillary space, the value added by this market increase will be reflected in earnings and equity over time.

The acquisitions made in 1986 - Capitol Stores Ltd. in Halifax, Kroger stores in St. Louis, Hickman, Coward and Wattles, Inc. and Kotok & Heims Corporation in Buffalo, can be considered "focused acquisitions". Each fits with our present businesses in those markets. When added to our existing operations, these acquisitions provided a "critical mass" and the opportunity for leveraged earnings growth from any incremental future investments in these regions. The recently completed acquisition of 58 "Mr. Grocer" stores in Ontario provided that critical mass for our wholesale operations in that province.

The short term impact on reported earnings



New Store Construction: Combination Stores

In 1986, 34 percent of the total capital invested was spent developing combination stores and ancillary retail space associated with them. The 8 combos opened in 1986 averaged 108,700 sq. ft. and offer a full food range as well as a broad selection of non-food products to fill everyday household needs, all at very competitive prices.

Opposite page and left:

In March, 1986, a 118,000 sq. ft. Real Canadian Superstore was opened in Regina. The food volume of this single store approaches one third of total food volume in that city.

Below:

The latest Real Superstore in Louisiana, a 110,000 sq. ft. store in New Orleans, opened in October, 1986.





caused by such a massive capital and acquisition program has been considerable. The increased depreciation and interest charges, amounting to a \$21.4 million increase over 1985, has put pressure on pretax earnings throughout the year. Loblaw Companies, although it has reported increased earnings for 42 consecutive quarters, does not put its emphasis on quarterly or even yearly earnings results.

Perhaps the ultimate demonstration of Loblaw Companies' concentration on productivity improvements as the long term route to earnings improvement is that total operating expenses excluding the cost of sales have declined steadily as a percentage of sales over the past decade. Because of this expense rate decline, your Company has comfortably withstood competitive pressures on margins in many market places over those years.

The effects of the present investment program will materially improve your Company's asset structure and increase the opportunities for continued productivity improvements and competitive advances well into the future. This investment program, when joined with a rapidly developing management team, should provide improved future share values on a steady and sustainable basis regardless of economic or market conditions. During 1986, 53 employees were granted stock options for the first time, bringing the total number of employees involved in this program to

97. While not materially dilutive to the interests of existing shareholders, these options are a strong incentive to senior management, allowing them to benefit as superior performance is recognized in increasing share values. We are now significant players in every market in which we are present. In retail, 1986 marked the first year in over a decade that total square footage increased substantially over the previous year. The outlook for Loblaw Companies has never been more positive and the security of one's investment in this Company has never been more sound.

It has been a difficult and eventful year. To all throughout this Company who have shown forbearance and determination and skill in the face of frenetic competitive activity and an heightened level of internal effort, my gratitude and continuing commitment.

Richard J. Currie
President
Loblaw Companies Limited

Opposite page, below and right:
The one-stop shopping opportunity which our combination stores provide is enhanced by adjacent retail stores offering complementary goods and services. High quality tenants make this auxiliary real estate an attractive by-product of our combination store program.

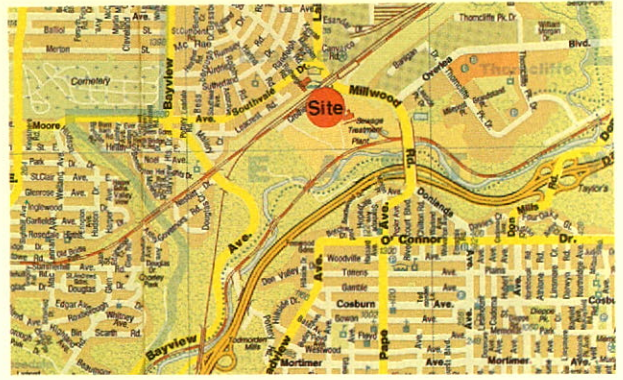


Below and right:
The first combination store in the Maritimes, an 87,500 sq. ft. Real Atlantic Superstore opened in Moncton in August.
Bottom left and right:
A 100,000 sq. ft. SuperCentre opened in Markham, Ontario in November, 1986.



Land for Development

A substantial portion of 1986 capital investment has been on land to be developed. 1987 will bring a SuperCentre to the former Golden Mile property on Eglinton Avenue and a new Loblaws store in Leaside, Toronto.



EASTERN CANADIAN OPERATIONS

Eastern Canadian Operations take place in the Province of Ontario and in the Maritime Provinces.

All the Ontario operations are grouped under Central Canada Grocers Inc. The retail components are Loblaws Supermarkets Limited, Zehrmart Limited and Combined Merchandisers Inc. and the wholesale component is National Grocers.

In the Maritimes, Eastern Canadian Operations are represented in both the retail and wholesale food segments by Atlantic Wholesalers Ltd.

Total sales of Eastern Canadian Operations in 1986 were \$3.07 billion, an improvement of 10.3 percent over 1985 results. At year end, there were 200 corporate stores, 694 franchised accounts and 6,600 unaffiliated customers in this portion of Loblaw Companies Limited.

Retail operations consist of 33 "Loblaws", 40 "Loblaws Warehouse Superstores", 29 "no frills", and 1 "Ziggys" gourmet shop in Loblaws Supermarkets Limited; 47 "Zehrs" in Zehrmart Limited; 4 "SuperCentres" in Combined Merchandisers Inc.; and 7 corporate stores in National Grocers. Atlantic Wholesalers has 15 "Save-Easy", 9 "Save-Easy Warehouse Foods", 6 "no frills", 1 "Foodmaster" store, 1 "Real Atlantic Superstore", 6 "Capitol" and 1 "Valu Fair" store in its corporate group. At year end, seven combination stores were in various stages of zoning and construction - in Brampton, Kitchener, Windsor and Toronto, Ontario and in

Lower Sackville and Dartmouth, Nova Scotia. All these units will open before October of 1987. Wholesale operations consist of 22 warehouses and 41 cash & carry units in Ontario and the Maritimes.

Operating income in 1986 was \$74.1 million and represents a 3.6 percent increase from 1985. Market conditions within the territory were unsettled throughout the year as the effects of the sale of Dominion Stores assets in Ontario and the Maritimes and the sale of Safeway Stores assets in Ontario were reflected in the operating statements of most operators, including ourselves. At present, Eastern Canadian Operations represent 39.1 percent of sales and 45.3 percent of the operating income of Loblaw Companies Limited as compared with 40.1 percent and 41.9 percent of sales in 1985 and 1984; and 47.2 percent and 51.1 percent of operating income in those years.

The outlook for 1987 in Eastern Canadian Operations is good. The acquisition of Capitol Stores in 1986 and the continued development of combination stores by Atlantic Wholesalers should begin to solidify our market position in that region. The acquisition of the 58 franchised stores of Domgroup Limited operated as "Mr. Grocer" completed early in 1987 and the continued development of a wide variety of store formats in Ontario should have a strong positive impact on our market presence next year. However, the full return from these investments will not be realized until beyond 1987.



Renovation and Renewal

Good stores in good locations gradually lose their customer appeal if they don't keep up with modern shopping preferences. In-store bakeries, floral departments, fresh seafood counters, expanded deli offerings and limited non-food articles are becoming an expected part of the supermarket shopping experience. Your Company continues to renew the existing stores to maintain its strong asset base.

Top left and right:
The recently renovated 21,500 sq. ft. Zehrs store in the Fairview Mall in Kitchener.

Above and left:
The recently renovated Loblaw's store in the Bayview Village in Toronto.

WESTERN CANADIAN OPERATIONS

Western Canadian Operations take place in the Provinces of Manitoba, Saskatchewan, Alberta and British Columbia as well as the Yukon and Northwest Territories.

All these operations are grouped under Kelly, Douglas & Company, Limited of Vancouver, in which this Company has an 85 percent interest. Western Canadian Operations take place under two divisions; the Prairie Division, of Winnipeg, Manitoba and the British Columbia and Yukon Division, of Vancouver, British Columbia.

Sales of Western Canadian Operations were \$2.03 billion in 1986, an improvement of 7.6 percent over 1985 results. At year end, 53 corporate stores were operated and 10,388 franchised and independent accounts served.

Retail operations consist of 29 "OK Economy", 11 "Real Canadian Superstores", and 13 stores operating under various other names. There are no corporate stores in British Columbia.

Wholesale operations consist of 27 wholesale warehouses and 20 cash & carry warehouses.

Sales in the Prairie Division improved 9.7 percent in 1986 to \$1.41 billion. This strong performance, coming after a 21.3 percent improvement in 1985 and a 19.1 percent improvement in 1984 comes primarily from growth in "Real Canadian Superstores".

Sales in the British Columbia and Yukon Division improved to \$624 million in 1986 following three years of decline from \$695 million to \$644 million to \$605 million.

Real Estate and Construction: The People

In food distribution, the cornerstone to building a successful business is site selection. This is not a centralized function. Rather it is left in the capable hands of experts familiar with each market.

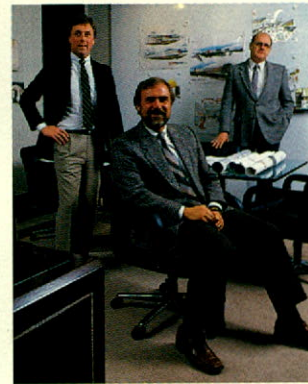
In Kelly, Douglas this important task is handled by Arnold Birks, Vice President, Real Estate & Development, Western Canada and Doug Hunter, Vice President, Store Location Development (below, centre and right respectively). Pictured with Arnold and Doug is Randy Heys, Vice President, Engineering and Construction Group.



The strong and steadily growing base of Western Canadian Operations is its wholesale and franchised independent operations. The retail segment has been used to develop higher risk concepts with significant profit potential. Beginning in 1979 in Saskatoon, the pioneering development of the "Real Canadian Superstore" has been enormously successful. This success has formed a competitive vanguard behind which the franchised independents, through judicious reinvestment in their business, can look forward to a secure business future.

Western Canadian Operations operating income in 1986 was \$60.7 million as compared with \$47.8 million in 1985. The 1985 figure was a 26.3 percent increase over 1984 results. Western Canadian Operations now represents 25.9 percent of sales and 37.4 percent of the operating income of Loblaw Companies Limited as compared with 27.2 percent and 26.5 percent of sales in 1985 and 1984; and 31.6 percent and 27.3 percent of operating income in those years.

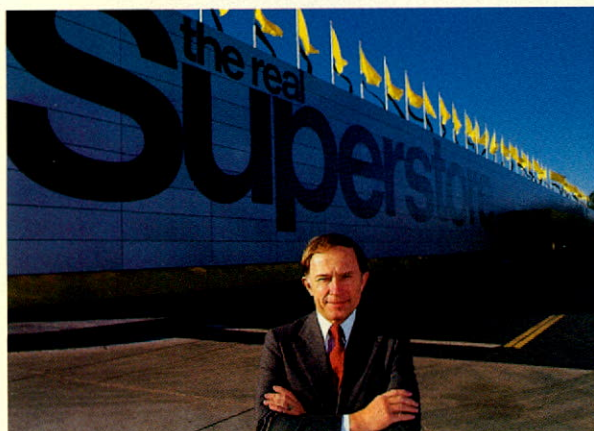
The outlook for 1987 in Western Canadian Operations is good. The pace of Real Canadian Superstore development in the Prairie Division will slow, allowing time to refine control systems. Having now proven their strength, these stores are unlikely to experience a recurrence of the intense competitive activity which met their introduction. In the British Columbia and Yukon Division, rationalization of facilities and customer base has now provided a solid footing from which steady growth is expected.



In Ontario, Stan Swartzman, President of IPCF Properties Inc., leads the charge backed by a team of real estate professionals (top-left). When Stan and his team have done their work, the ball is passed to Fred Henderson, Vice President Construction, shown with Stan (top-right). Fred and his group, (above), are responsible for building quality stores to a tight construction deadline at the lowest possible cost.

In the Maritimes, Jim Stevenson, Vice President, Real Estate and Corporate Development of Atlantic Wholesalers (left) oversees site selection, real estate acquisition and ongoing real estate administration. Over the years, he has called on the astute advice and assistance of George Robertson (standing at his right). George is a Loblaw Companies director and Audit Committee member as well as a partner in the legal firm, McInnes Cooper and Robertson of Halifax, Nova Scotia.

Harold Seitz, now the Senior Vice President and Division Manager of the New Orleans division of National Tea, pioneered site selection for combination stores in Canada and the United States during the 16 years he served as Senior Vice President, Real Estate Development for Loblaw Companies. He is shown here in front of his newest Real Superstore in New Orleans (below-left) and with members of his real estate staff (below-right).



New Store Construction: Conventional Stores

Although the combination store is an exciting growth opportunity with significant profit potential, there are many markets where the traditional supermarket is more appropriate. Building the right stores for our customers is just as important as price, selection, and quality. In fact, in 1986 both the combination and conventional store square footage increased by approximately the same amount - about 800,000 sq. ft.

Bottom:

Ground is broken for a new National store in downtown St. Louis. Peter Bohling (left), Vice President, Real Estate in the St. Louis division of National Tea is shown in the foreground with the construction foreman.

Top:

An artist's rendering shows the planned store, scheduled for opening in June of 1987.



UNITED STATES OPERATIONS

United States Operations take place in thirteen states — Alabama, Connecticut, Illinois, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and West Virginia and operate in both the wholesale and retail segments of food distribution.

Wholesale operations are centred in Peter J. Schmitt Co., Inc. of Buffalo, New York. Its total franchised stores at year end were 171, compared with 172 at year end 1985. Independent accounts numbered 3,433 compared with 1,181. At year end, Peter J. Schmitt operated 21 corporate stores, compared with 18 at the end of last year. Total wholesale sales for 1986 were \$1.21 billion, an increase of 37.5 percent from 1985. The acquisitions of 1985 and early 1986, Santisi Produce Company of Youngstown, Ohio; Betsy Ross Foods, Inc. of Akron, Ohio; Hickman, Coward & Wattles of Buffalo, New York, and Kotok & Heims of Buffalo made significant contributions to sales and profit growth in 1986.

Retail operations are centred in National Tea Co., with divisions in St. Louis (60 stores) and New Orleans (46 stores). During the year, extreme profit pressure was experienced due to a sustained price war in St. Louis, an uncompetitive labour situation in the New Orleans conventional stores and the development of combination stores - "The Real Superstore" - in that market. In November, 24 operating stores and 2 stores under construction were acquired from The Kroger

Company in St. Louis. This acquisition, after its assimilation in the first half of 1987, should make a material improvement in the profitability and security of our investment in the St. Louis marketplace. In New Orleans, the first "Real Superstore" was opened in that city in October, following such stores in Baton Rouge in 1984 and Lafayette in 1985. A second New Orleans store could be open by late 1987. Results for the coming year are expected to reflect more competitive labour costs and improved store dynamics in the New Orleans marketplace.

Operating income in 1986 in United States Operations was \$32.5 million on sales of \$2.74 billion, \$1.44 billion in Peter J. Schmitt and \$1.30 billion in National Tea. This operating income reflects an increase in wholesale performance and a decline in retail. This operating income compares with \$35.0 million in 1985 and \$33.9 million in 1984.

United States Operations now represents 35.0 percent of Loblaw Companies' sales and 20.4 percent of operating income as compared with 32.7 percent and 31.6 percent of sales in 1985 and 1984 and 23.1 percent and 24.6 percent of operating income in those years. With total sales, sales per market and sales per unit improving, a significant growth opportunity for Loblaw Companies now exists in the United States.



Warehouse Construction

Perhaps less glamorous but equally important in terms of efficiency and income generating potential is the growth in the wholesaling side of the business. Where appropriate, space has been added and technology upgraded to handle present and future wholesale and retail volume at reduced cost.

Left:
1986 saw the addition of a 50,600 sq. ft. freezer facility to an existing 418,900 sq. ft. warehouse in Buffalo, New York.

Below:
During the year Peter J. Schmitt added a new flow racking system to its West Seneca warehouse. This system allowed the introduction of 2,700 new health and beauty and general merchandise items to its product lines, to better service its retail store customers.

Bottom left and right:
During the year a 72,000 sq. ft. addition to the warehouse in Edmonton brings the total square footage of that facility to 320,000 sq. ft.



RETAIL AND WHOLESALE OPERATIONS

Retail Operations include the stores of those businesses which are exclusively retail-oriented - i.e., Combined Merchandisers, Loblaws, National Tea and Zehrmart - plus the corporately owned stores of the four wholesale businesses - i.e., Atlantic Wholesalers, Kelly, Douglas, National Grocers and Peter J. Schmitt. Wholesale Operations include the sales and services of the four wholesale businesses to franchised accounts and unaffiliated accounts, exclusive of sales to corporate stores of that business or an associated business. The corporate store operations of the wholesale business are viewed as being complementary to and not competitive with the wholesale operations of those same businesses.

The following charts illustrate the makeup and trends in Loblaw Companies Limited when viewed from a retail and wholesale perspective.

	1986		1985		1984	
RETAIL OPERATIONS						
Stores	Stores	Sq. Ft. (in millions)	Stores	Sq. Ft. (in millions)	Stores	Sq. Ft. (in millions)
Beginning of year	363	9.2	381	9.2	403	9.1
Opened	60	2.4	18	0.6	16	0.6
Closed	(46)	(0.9)	(26)	(0.4)	(34)	(0.5)
Franchised						
Transfer to:	(13)	(0.2)	(19)	(0.4)	(8)	(0.2)
Transfer from:	16	0.3	9	0.2	4	0.2
End of year	380	10.8	363	9.2	381	9.2
Average store size (in thousands)	28.4 sq. ft.		25.3 sq. ft.		24.1 sq. ft.	
Analysis by size						
More than 60,000 sq. ft.	18		10		8	
40,000 - 60,000 sq. ft.	46		33		32	
20,000 - 39,999 sq. ft.	179		171		178	
10,000 - 19,999 sq. ft.	112		129		140	
Less than 10,000 sq. ft.	25		20		23	
	380		363		381	
Sales						
Annual sales (in millions)	\$4,430		\$3,940		\$3,659	
Annual average sales per gross sq. ft.	\$457		\$432		\$400	
WHOLESALE OPERATIONS						
End of year						
Cash & carry units	62		65		75	
Franchised accounts	1,483		1,284		1,305	
Unaffiliated accounts	19,803		14,474		12,860	
Annual sales (in millions)	\$3,409		\$2,991		\$2,760	

TEN YEAR ANALYSIS

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
BY OPERATING REGION										
(\$ millions)										
Sales										
Eastern Canadian operations	3,067	2,780	2,692	2,538	2,407	2,245	2,070	1,798	1,646	1,509
Western Canadian operations	2,031	1,888	1,702	1,583	1,714	1,598	1,424	1,324	1,171	1,027
United States operations	2,741	2,263	2,025	1,970	2,100	1,952	1,881	1,603	1,430	1,199
Total	7,839	6,931	6,419	6,091	6,221	5,795	5,375	4,725	4,247	3,735
Operating income										
Eastern Canadian operations	74	72	70	62	56	53	52	29	24	21
Western Canadian operations	61	48	38	36	33	36	29	24	23	20
United States operations	33	35	34	32	32	31	31	26	17	15
Corporate	(5)	(3)	(4)	(2)	(6)	(7)	(13)	(7)	(4)	(7)
Total	163	152	138	128	115	113	99	72	60	49

QUARTERLY EARNINGS PER SHARE

(dollars) (Adjusted to reflect the two-for-one share split in 1986.)

First quarter	\$0.14	\$0.13	\$0.11	\$0.10	\$0.09	\$0.07	\$0.06	\$0.04	\$0.03	\$0.02
Second quarter	0.23	0.20	0.18	0.14	0.12	0.11	0.08	0.05	0.04	0.03
Third quarter	0.27	0.26	0.24	0.20	0.16	0.15	0.12	0.09	0.08	0.04
Fourth quarter	0.27	0.26	0.24	0.22	0.17	0.16	0.15	0.11	0.10	0.10
Total earnings before extraordinary items per share	\$0.91	\$0.85	\$0.77	\$0.66	\$0.54	\$0.49	\$0.41	\$0.29	\$0.25	\$0.19





FINANCIAL REPORT

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TEN YEAR SUMMARY

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
EARNINGS STATEMENT										
(\$ millions)										
Sales - Canada	5,098	4,668	4,394	4,121	3,847	3,513	3,198	2,857	2,645	2,412
- United States	2,741	2,263	2,025	1,970	2,374	2,282	2,177	1,868	1,602	1,323
Total	7,839	6,931	6,419	6,091	6,221	5,795	5,375	4,725	4,247	3,735
Operating income	163	152	138	128	115	113	99	72	60	49
Depreciation	86	73	67	62	58	53	48	36	31	28
Interest	45	36	29	26	26	29	26	22	16	18
Income taxes	39	44	44	46	39	37	34	21	20	13
Minority interest	5	4	3	4	4	6	5	6	5	4
Earnings before extraordinary items	74	67	61	52	45	41	34	23	19	13
Extraordinary items			3	1	(6)	12	12	12	7	5
Net earnings	74	67	64	53	39	53	46	35	26	18

PER COMMON SHARE

(dollars) (Adjusted to reflect the two-for-one share split in 1986.)

Earnings before extraordinary items	0.91	0.85	0.77	0.66	0.54	0.49	0.41	0.29	0.25	0.19
Net earnings	0.91	0.85	0.81	0.66	0.46	0.66	0.60	0.48	0.36	0.27
Dividends	0.175	0.155	0.135	0.118	0.105	0.085	0.068	0.058	0.038	0.033

RETURN ON SALES

Operating income	2.1%	2.2%	2.1%	2.1%	1.9%	1.9%	1.8%	1.5%	1.4%	1.3%
Earnings before income taxes	1.5%	1.7%	1.7%	1.7%	1.4%	1.4%	1.4%	1.1%	1.0%	0.8%
Earnings before extraordinary items	0.9%	1.0%	1.0%	0.9%	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%

EARNINGS RATIOS*

Return on common equity	14.6%	15.6%	16.3%	16.3%	15.3%	16.3%	16.9%	15.2%	16.2%	14.9%
Return on capital employed	14.3%	17.0%	18.1%	18.6%	17.5%	18.0%	17.3%	14.8%	14.7%	12.9%

*Earnings ratios have been computed as follows:

Return on common equity -

Earnings before extraordinary items less preferred dividends divided by average common share capital, retained earnings, equity from foreign currency translation and the applicable portion of contributed surplus.

Return on capital employed -

Operating income divided by average total assets less non-interest bearing debt.

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
FINANCIAL POSITION										
(\$ millions)										
Current assets	940	753	624	581	575	531	491	465	414	381
Current liabilities	739	627	495	470	479	433	401	378	336	304
Working capital	201	126	129	111	96	98	90	87	78	77
Owned fixed assets (net)	851	597	494	418	376	340	315	293	241	210
Property under capital leases (net)	59	59	61	67	81	86	87	44		
Total assets	1,978	1,530	1,264	1,151	1,111	1,034	962	868	713	631
Long term debt	443	266	174	138	133	98	99	110	102	106
Total debt	569	390	283	233	253	220	231	195	151	158
Retained earnings	348	295	245	198	159	134	95	62	35	14
Shareholders' equity	655	521	466	413	344	317	277	242	190	139

CHANGES IN FINANCIAL POSITION (\$ millions)

Cash flow from operations*	204	132	60	117	110	123	99	78	61	53
Purchase of owned fixed assets and properties for development	289	192	148	98	69	92	92	99	99	63

PER COMMON SHARE

(dollars) (Adjusted to reflect the two-for-one share split in 1986.)

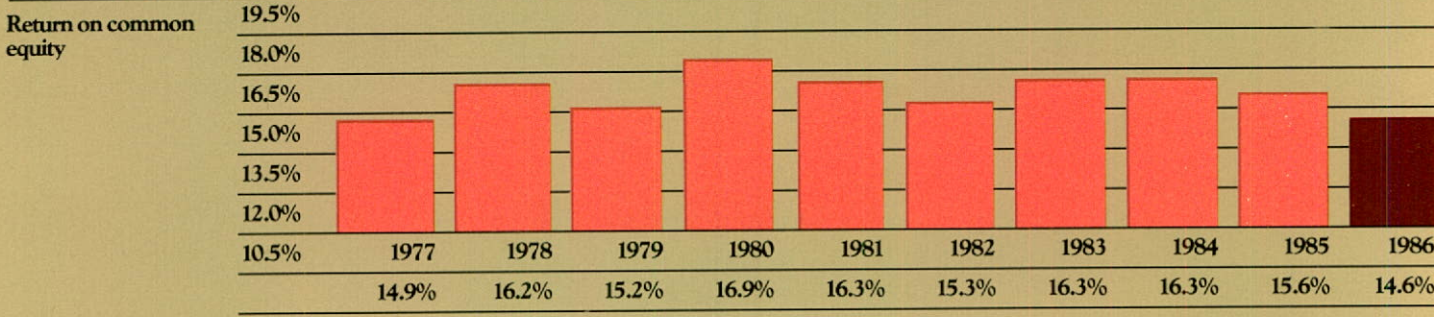
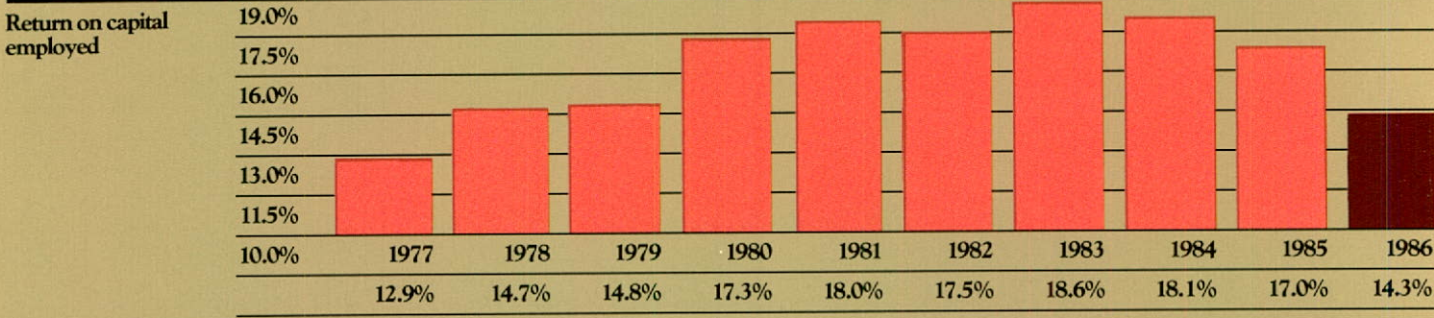
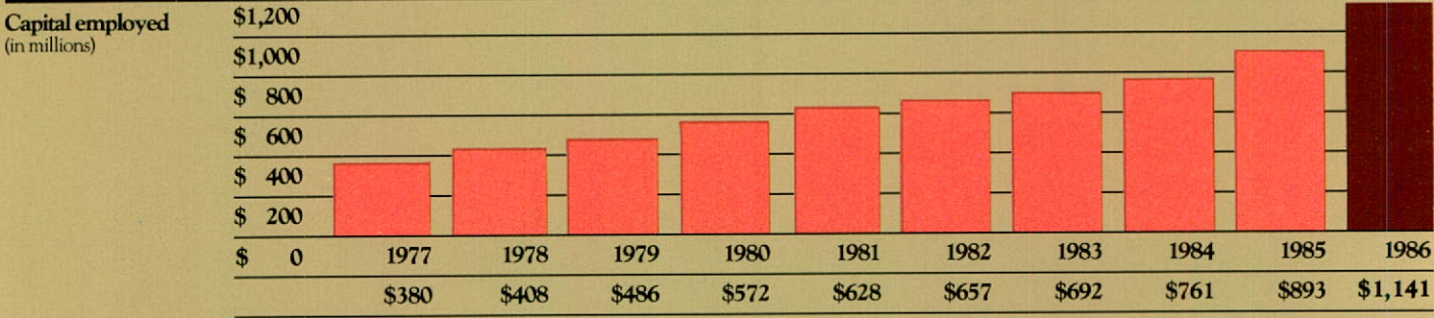
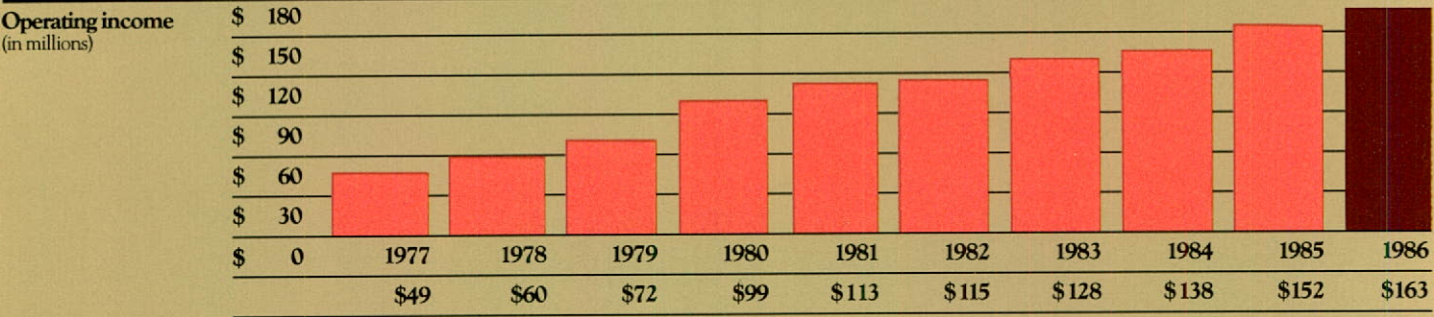
Cash flow from operations	2.86	1.85	0.84	1.65	1.55	1.80	1.56	1.22	0.96	0.84
Book value	6.68	5.85	5.09	4.33	3.69	3.34	2.68	2.15	1.72	1.40

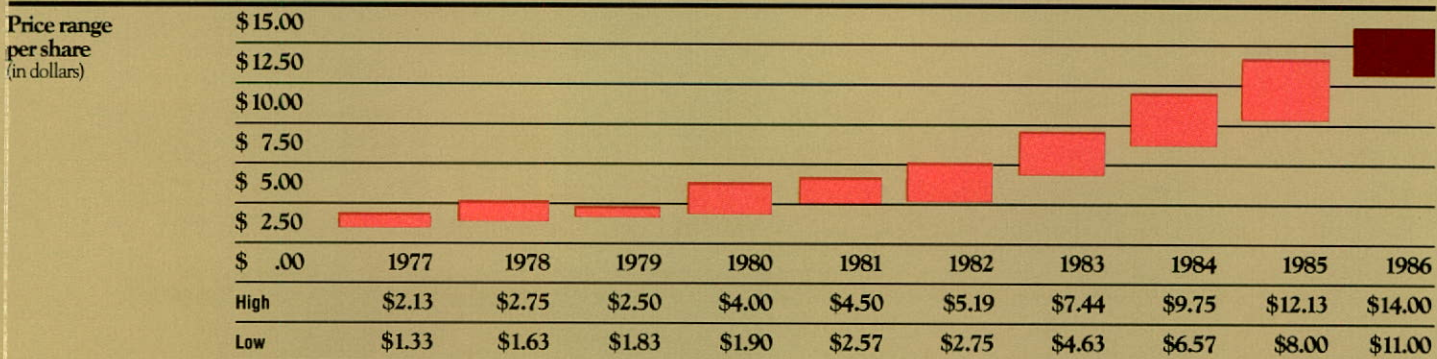
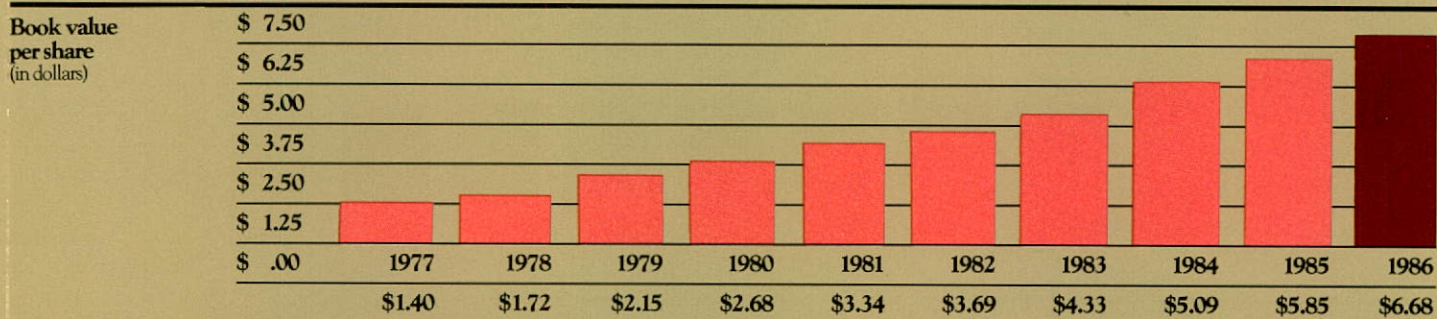
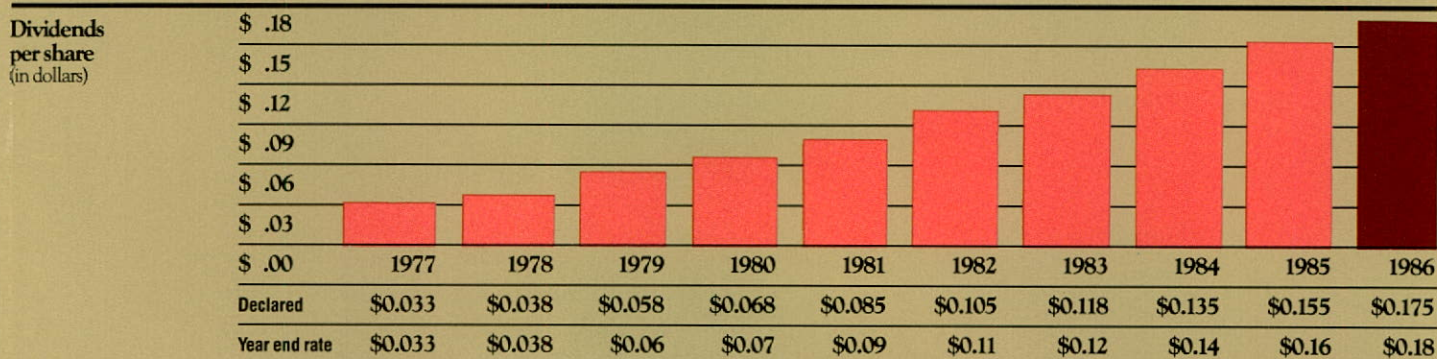
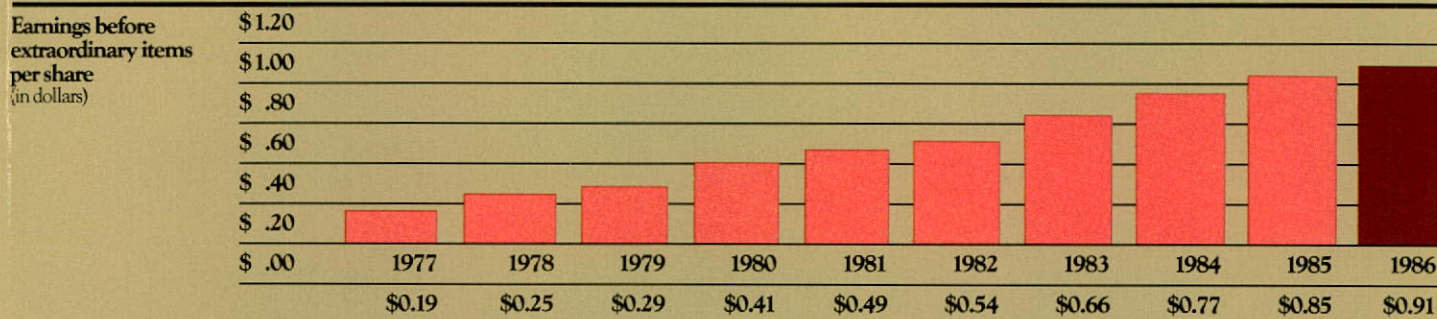
FINANCIAL RATIOS

Working capital	1.27:1	1.20:1	1.26:1	1.24:1	1.20:1	1.23:1	1.22:1	1.23:1	1.23:1	1.25:1
Total debt to equity	0.87:1	0.75:1	0.61:1	0.56:1	0.74:1	0.70:1	0.83:1	0.81:1	0.80:1	1.14:1
Cash flow from operations to long term debt	0.46:1	0.50:1	0.34:1	0.85:1	0.83:1	1.26:1	1.00:1	0.71:1	0.60:1	0.50:1
Interest coverage on total debt	3.62:1	4.17:1	4.72:1	4.86:1	4.35:1	3.80:1	3.83:1	3.26:1	3.72:1	2.72:1

*Restated to conform with cash flow definition adopted in 1986 to conform with CICA recommendations.

TEN YEAR GRAPHICAL ANALYSIS





LOBLAW COMPANIES LIMITED FINANCIAL REVIEW

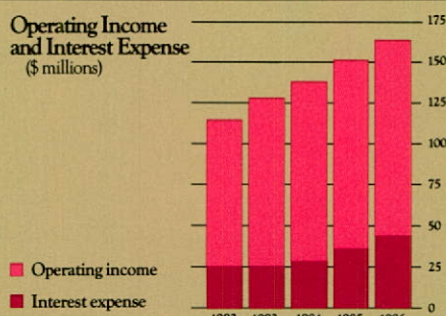
In 1986, Loblaw Companies continued its growth record with earnings per share increasing for the tenth consecutive year. Although the rate of earnings growth was moderated by the short term costs of the capital expansion program, the 1986 result is encouraging in its implications for the future as the long term benefits of this program are realized.

Results of Operations

Sales increased 13.1 percent to \$7,838.9 million in 1986 from \$6,931.1 million in 1985. Real volume gains accounted for approximately two thirds of this increase in sales with the remainder attributable to inflation. New store construction as well as wholesale acquisitions in Peter J. Schmitt late in 1985 and early in 1986 and the Capitol Stores acquisition in Atlantic Wholesalers at mid year all contributed significantly to the volume growth. In addition, the 53rd week in 1986 contributed about 2 percent more sales.

Operating income increased 7.9 percent to \$163.4 million from \$151.5 million in 1985. Several factors had major effects on operating income. First, the anticipated initial impact of the new store investment was felt. An immediate significant increase in depreciation expense was accompanied by a slower increase in trading profits as the stores develop toward their full profit-generating potential. Second, the St. Louis market experienced intense price competition throughout 1986. While this situation ultimately resulted in The Kroger Company's decision to withdraw from that market and your Company's subsequent acquisition of selected Kroger stores, short term operating profitability was adversely affected. Third, operating results were unsatisfactory in our New Orleans conventional stores where high labour rates have restricted operating productivity. This situation is currently being positively addressed. Elsewhere in the business, growth in operating income was approximately 20 percent excluding the impact of a \$10.6 million net gain on the sale of a property in British Columbia.

Interest expense increased from \$36.3 million in 1985 to \$45.2 million in 1986. This increase was due to higher borrowing levels partially offset by lower average interest rates and increased interest capitalized on capital assets under development.



An important measure of financial strength is operating income relative to interest expense (interest coverage). Although coverage is down, this is a result of the increased interest cost associated with new facilities which have not yet reached full productive potential. The coverage for 1986 of 3.6 times remains adequate.

Earnings before income taxes increased from \$115.2 million in 1985 to \$118.2 million in 1986. **Income tax expense** for the year was reduced approximately 6.5 percentage points by favourable settlements on prior year's issues and also benefited from reduced taxation of capital gains realized on property sales. The overall rate for the year was 33.2 percent, about 5 points lower than last year.

Earnings before extraordinary item was \$73.7 million, a 9.8 percent increase from 1985. **Earnings per share** was \$0.91 compared to \$0.85 last year. The percentage increase in net earnings exceeds the increase in earnings per share as a result of the dilution caused by the issue of \$75.0 million in preferred shares midway through the year. Growth in earnings per common share was 7.1 percent, down from 10.4 percent in 1985. The lower growth in 1986, primarily a reflection of the growth in operating income, resulted in a five year compound growth in earnings per common share of 13.2 percent, down from 15.7 percent at the end of 1985 and slightly below the long term objective of 15 percent. It is anticipated that annual earnings per common share growth will increase with maturation of the

capital investment program, however, the five year compound growth rate objective of 15 percent will be difficult to meet in the next several years.

Return on common shareholders' equity was at 14.6 percent for the year. Although this is slightly below your Company's longer term objective of 15 percent, the five year average was a satisfactory 15.6 percent. As with growth in earnings per common share, return on common equity is likely to be below 15 percent until maturation of the capital investment program but nevertheless at quite acceptable levels given the current lower inflation environment.

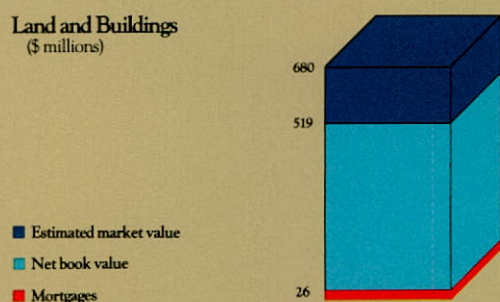
Changes in Financial Position

In 1986 Loblaw Companies Limited adopted the CICA's recommendations on disclosure of changes in financial position. The recommended disclosure focuses on changes in the Company's cash (and cash equivalents) rather than on changes in working capital. This disclosure is consistent with the Company's financial planning and management objectives which focus on cash flow from operations, capital expenditures and financing and the impact of these on the debt/equity ratio. Management regards exercising control over the amount of cash invested in all areas of the business, including working capital, to be more appropriate than the traditional focus on working capital maintenance. Cash flow from operations, defined under the new format to include cash provided from working capital, may fluctuate significantly between quarters and to some extent on an annual basis due to, among other factors, the seasonal nature of the food distribution business, the timing of quarter ends, and the frequent need to stockpile inventory to maximize cost saving opportunities.

Cash flow from operations in 1986 was \$204.2 million, up from \$132.2 million in 1985. Control of cash invested in working capital was good as indicated by the fact that net operating working capital (inventory plus receivables less payables, adjusted for acquisitions) as a percentage of sales was 2.3 percent in 1986 versus 3.2 percent in 1985.

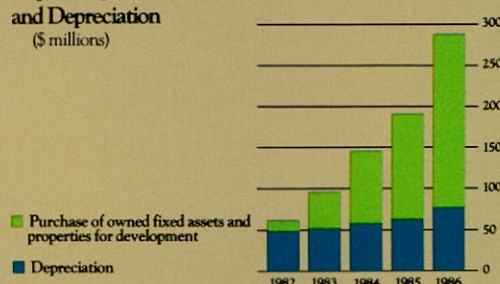
New investments in the business during the year amounted to \$371 million, bringing the total new investment in your Company over the last three years to \$732 million. Additions to fixed assets and properties held for development were \$289 million, up from \$192 million in 1985 and represent a renewal period in 1986 of 2.7 years. Wherever possible, it is the Company's policy to own its store real estate. This policy affords the Company greater operating flexibility as well as a significant investment in land, an asset which has historically appreciated over time. In 1986, land holdings increased by \$33.8 million and \$81.5 million was invested in new businesses through the acquisition of the Capitol Stores business in Halifax, 26 former Kroger stores in St. Louis and the assets of two food service wholesalers in Buffalo.

Land and Buildings
(\$ millions)



Your Company's policy of owning real estate wherever possible and not encumbering this real estate with debt is giving rise to additional financial strength which is not readily apparent from the balance sheet. If the estimated market value increment of approximately \$160 million were included in equity, the debt to equity ratio at year end would decrease from 0.87:1 to 0.70:1.

Capital Expenditures and Depreciation
(\$ millions)



The fixed asset renewal rate over the last five years has averaged 3.2, i.e. complete renewal of the existing base every 3.2 years. In 1986 this rate is 2.7. These ratios reflect the level of capital investment being undertaken by your Company and the commitment to a strong asset base for the future.

Capital Structure

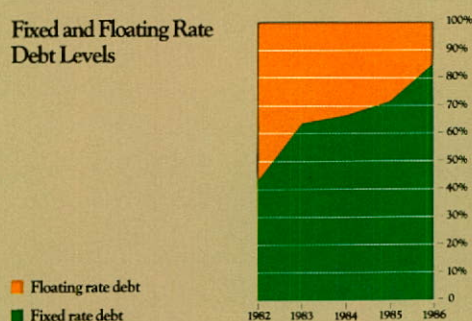
Short term debt levels remained virtually unchanged with \$50.9 million at the end of 1986 compared to \$48.2 million at the end of 1985. Long term debt (including capitalized leases and current portion of long term debt) increased \$176.3 million to \$518.0 million in 1986 from \$341.7 million in 1985. Major new long term debt issues during 1986 included \$50.0 million 10 percent Series 5 Debentures due 2006, \$75.0 million 9 3/4 percent Series 6 Debentures due 2001 and \$75.0 million 10 percent Series 7 Debentures due 2001. Proceeds of these issues were used primarily to finance the capital investment program.

As a result of these financings, the weighted average interest rate on fixed rate long term debt (excluding capitalized leases) was 10.7 percent at the end of 1986, down from 11.0 percent at the end of 1985. The weighted average term to maturity on fixed rate long term debt at year end 1986 was 11.5 years while the weighted average term to the earlier of maturity or first retraction date was 7.0 years. The comparable weighted average at the end of 1985 for both calculations was 7.8 years. Fixed rate debt as a percentage of total debt (excluding capitalized leases) increased to 83.0 percent at the end of 1986 from 71.6 percent at the end of 1985.

Preferred equity increased \$75.0 million in 1986 due to the issue of \$75.0 million 7.3 percent Second Preferred Shares, Third Series. Motivation for this issue was to ensure the 1:1 debt/equity ratio objective and further issues would be considered in future years in similar circumstances. The debt/equity ratio at the end of 1986 was 0.87:1.

Common equity retained in the business increased \$59.7 million during 1986 and provides a balance to the additional debt incurred. The Company's earnings are primarily reinvested for future growth and consequently the Company operates with a dividend policy of paying out approximately 20 percent of the previous year's earnings per share. Given the capital investment program, no change in this policy is currently anticipated.

Fixed and Floating Rate
Debt Levels



The increase in the proportion of fixed rate debt as a result of the new long term debt issued in 1986 reflects your Company's decision to lock-in fixed rate funds in a decreasing interest rate environment and to match funding maturity with the nature of the assets being financed.

Future Prospects

Effective February 2, 1987, Loblaw Companies completed the acquisition of the franchise business of Domgroup Ltd. operated under the "Mr. Grocer" name in Ontario. This acquisition increases the number of franchise customers in Ontario by 58 at a cost of \$36.5 million. Including this acquisition, it is anticipated that total capital expenditures (additions to fixed assets and acquisitions) in 1987 will be approximately equal to the 1986 level.

In 1987, operating income will benefit from the 1986 and above-mentioned 1987 acquisitions. In addition, trading profits from the new stores opened in 1986 will strengthen. Offsetting this will be the ongoing costs of the capital expansion program and a tax rate which is expected to be at least 5 points higher than in 1986, due primarily to the ending of the tax benefit from favourable settlement of prior years' issues. In summary, it is anticipated that 1987 will be a year of modest improvement over 1986. Longer term, as the benefits of the capital investment program are more fully realized, your Company is confident that operating results will be at record levels.

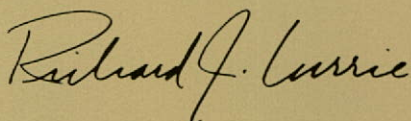
RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Loblaw Companies Limited is responsible for the preparation and integrity of the financial statements and related financial information of the Company. The financial statements and other financial information in this report have been prepared by the management of the Company in accordance with generally accepted accounting principles and, where necessary, utilizing management's judgements and best estimates.

To help fulfill its responsibility and to assure integrity of financial reporting, management maintains a system of internal controls encompassing all financial records. These controls, which include a comprehensive budgeting system and timely periodic reporting of financial information, provide reasonable assurance that assets are safeguarded and transactions and events are properly recorded. To augment the internal control systems, the Company maintains a program of internal audits coordinated with the external auditors.

Ultimate responsibility for financial statements to shareholders rests with the Board of Directors. An audit committee of non-management directors is appointed by the Board to oversee the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The audit committee reviews financial statements with management and reports to the directors prior to the approval of the audited financial statements for publication.

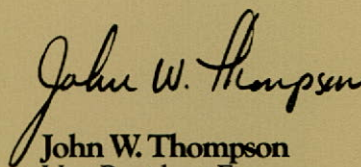
Thorne Ernst & Whinney, independent auditors appointed by the shareholders, review the financial statements in detail and meet separately with both the audit committee and management to discuss their findings, including the fairness of financial reporting and the results of their review of internal controls. The shareholders' auditors report directly to shareholders and their report also appears on this page.



Richard J. Currie
President



David K. Bragg
Vice President, Controller



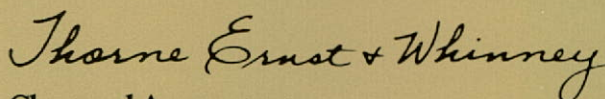
John W. Thompson
Vice President, Finance

AUDITORS' REPORT

To the Shareholders of Loblaw Companies Limited

We have examined the consolidated balance sheet of Loblaw Companies Limited as at January 3, 1987 and the consolidated statements of earnings, retained earnings and cash flow for the 53 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 3, 1987 and the results of its operations and cash flow for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.



Chartered Accountants
March 6, 1987
Toronto, Canada

Thorne Ernst & Whinney
Chartered Accountants

Member of  Ernst & Whinney International

Loblaw Companies Limited

Consolidated Statement of Earnings

53 Weeks Ended January 3, 1987

	1986 (53 weeks)	1985 (52 weeks) (in millions of dollars)	1984 (52 weeks)
Sales - Canada	\$5,098.4	\$4,668.2	\$4,394.0
- United States	2,740.5	2,262.9	2,025.4
	7,838.9	6,931.1	6,419.4
Operating expenses			
Cost of sales, selling and administrative expenses	7,590.0	6,706.6	6,214.3
Depreciation - Owned fixed assets	76.7	64.1	58.6
- Property under capital leases	8.8	8.9	8.8
	7,675.5	6,779.6	6,281.7
Operating income	163.4	151.5	137.7
Interest - Long term debt	33.5	23.0	14.6
- Short term debt	1.8	3.2	4.3
- Obligations under capital leases	9.9	10.1	10.3
	45.2	36.3	29.2
Earnings before income taxes	118.2	115.2	108.5
Income taxes (note 2)	39.2	44.3	44.2
Earnings before minority interest	79.0	70.9	64.3
Minority interest	5.3	3.8	3.2
Earnings before extraordinary item (note 3)	73.7	67.1	61.1
Extraordinary item			3.1
Net earnings for the period	\$ 73.7	\$ 67.1	\$ 64.2
Per common share (note 8)			
Earnings before extraordinary item	\$0.91	\$0.85	\$0.77
Extraordinary item			\$0.04
Net earnings	\$0.91	\$0.85	\$0.81

Consolidated Statement of Retained Earnings

53 Weeks Ended January 3, 1987

	1986 (53 weeks)	1985 (52 weeks) (in millions of dollars)	1984 (52 weeks)
Retained earnings, beginning of period	\$ 294.8	\$ 245.4	\$ 197.5
Net earnings for the period	73.7	67.1	64.2
	368.5	312.5	261.7
Dividends declared			
Preferred shares	8.5	6.6	6.7
Common shares, per share - 17.5 c (1985 - 15.5 c, 1984 - 13.5 c) (note 8)	12.5	11.1	9.6
	21.0	17.7	16.3
Retained earnings, end of period	\$ 347.5	\$ 294.8	\$ 245.4

Loblaw Companies Limited

Consolidated Balance Sheet

As at January 3, 1987

	1986	1985	1984
		(in millions of dollars)	
Assets			
Current assets			
Cash and short term investments	\$ 75.8	\$ 1.5	\$ 7.6
Accounts receivable	219.8	207.9	152.8
Inventories	599.3	523.5	443.4
Properties held for sale	17.3	7.6	8.0
Prepaid expenses and other	27.4	12.6	12.3
	939.6	753.1	624.1
Investments (note 4)	100.3	102.9	70.1
Fixed assets (note 5)	850.7	596.7	494.0
Property under capital leases (note 6 (a))	59.3	58.8	61.1
Deferred income taxes		4.1	7.8
Other assets	28.1	14.1	7.2
	\$1,978.0	\$1,529.7	\$1,264.3
Liabilities			
Current liabilities			
Bank advances and notes payable	\$ 50.9	\$ 48.2	\$ 31.8
Accounts payable	450.2	363.7	299.3
Accrued liabilities	178.8	162.5	124.2
Taxes payable	40.3	26.7	26.2
Long term debt payable within one year (note 7)	12.2	15.1	3.1
Obligations under capital leases (note 6 (b))	6.3	8.1	7.3
Dividends payable		3.0	2.6
	738.7	627.3	494.5
Long term debt (note 7)	430.9	250.7	171.2
Obligations under capital leases (note 6 (b))	68.6	67.8	69.6
Other liabilities	29.1	28.3	30.9
Deferred income taxes	16.7		
Minority interest in subsidiaries	38.8	34.6	31.9
	1,322.8	1,008.7	798.1
Shareholders' equity			
Capital stock (note 8)			
Preferred shares	168.9	94.4	95.5
Common shares	104.5	104.1	103.2
	273.4	198.5	198.7
Contributed surplus	10.2	10.3	10.4
Retained earnings	347.5	294.8	245.4
Equity from foreign currency translation	24.1	17.4	11.7
	655.2	521.0	466.2
	\$1,978.0	\$1,529.7	\$1,264.3

Approved By The Board:

W. Galen Weston,
Director

W. Galen Weston

Richard J. Currie,
Director

Richard J. Currie

Loblaw Companies Limited

Consolidated Cash Flow Statement

53 Weeks Ended January 3, 1987

	1986 (53 weeks)	1985 (52 weeks) (in millions of dollars)	1984 (52 weeks)
Operations			
Earnings before minority interest	\$ 79.0	\$ 70.9	\$ 64.3
Depreciation	85.5	73.0	67.4
Income taxes not requiring cash	17.1	3.7	0.1
Other	(10.2)	(0.3)	(0.1)
	171.4	147.3	131.7
Provided from (used for) working capital	32.8	(15.1)	(71.9)
Cash flow from operations	204.2	132.2	59.8
Investment			
Purchase of owned fixed assets and properties for development	(289.4)	(192.0)	(148.2)
Proceeds from sale of fixed assets	55.8	34.3	23.6
Gain on sale of fixed assets included in operations	(18.7)	(9.3)	(7.8)
Acquisition of subsidiary companies (note 9)	(81.5)	(20.9)	
Net (increase) decrease in other items	(7.2)	(24.0)	4.0
	(341.0)	(211.9)	(128.4)
Financing			
Long term debt - borrowings	207.2	123.8	69.5
- repayments	(36.0)	(39.7)	(35.7)
Capital stock - issued	75.4	0.8	
- redeemed	(0.5)	(1.1)	
Other sources of financing	(12.8)	(8.4)	(5.9)
	233.3	75.4	27.9
Dividends			
To shareholders	(24.0)	(17.3)	(13.7)
To minority shareholders in subsidiary companies	(0.9)	(0.9)	(0.9)
	(24.9)	(18.2)	(14.6)
INCREASE (DECREASE) IN CASH	71.6	(22.5)	(55.3)
Cash (deficiency) at beginning of period	(46.7)	(24.2)	31.1
CASH (DEFICIENCY) AT END OF PERIOD	\$ 24.9	\$ (46.7)	\$ (24.2)

Cash is defined as cash and short term investments net of bank advances and notes payable.

Loblaw Companies Limited

Notes to Consolidated Financial Statements

53 Weeks Ended January 3, 1987

(Narrative and tabular amounts in millions of dollars except Capital Stock note)

1. Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of Loblaw Companies Limited in the equity share capital of principal subsidiaries is 100%, except for Kelly, Douglas & Company, Limited which is 85% owned.

(b) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

(c) Properties held for development or sale and fixed assets

Properties held for sale are stated at the lower of cost and net realizable value. Those expected to be sold within one year are included in current assets.

Fixed assets and properties held for development are stated at cost, including capitalized interest. Interest capitalized during the year amounts to \$8.9 (1985 - \$3.1, 1984 - \$1.9). Depreciation is recorded principally on a straight line basis to amortize the cost of these assets over their estimated useful lives.

Estimated useful lives range from twenty to thirty-five years for buildings and three to eleven years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the applicable useful life and term of the lease.

(d) Translation of foreign currencies

Foreign currency balances are translated at a rate approximating the current rate of each year end. The net difference on translation of the Company's equity in United States subsidiaries and that portion of debt payable in United States funds which is considered a hedge against these investments, is included in a separate category of shareholders' equity on the balance sheet, to be recognized in earnings in proportion to any reduction of the net investment.

(e) Leases

Rents on all leases entered into before December 31, 1978 are expensed as incurred.

2. Income Taxes	1986	1985	1984
The Company's effective income tax rate is made up as follows:			
Combined basic Canadian federal and provincial income tax rate	52.1%	51.4%	51.1%
Lower tax rate on capital gains	(6.4)	(3.5)	(2.1)
Impact of operating in foreign countries with lower effective tax rates	(2.7)	(3.0)	(4.0)
Inventory allowance which partially offsets increases in taxes due to inflation	(0.7)	(4.2)	(3.6)
Other (including adjustment of prior years' estimates)	(9.1)	(2.2)	(0.7)
	33.2%	38.5%	40.7%

3. Extraordinary Item

Extraordinary item in 1984 consists of income tax reductions realized on application of prior years' losses - \$6.5 and closing costs of subsidiary and divisions, net of income tax recoveries - (\$3.4).

4. Investments (at cost)	1986	1985	1984
Secured loans and advances	\$ 27.0	\$ 22.3	\$ 15.1
Long term receivables	24.8	15.9	17.3
Sundry investments	26.7	32.4	15.3
Properties held for development or sale	21.8	32.3	22.4
	\$100.3	\$102.9	\$ 70.1

Secured loans and advances include \$2.4 (1985 - \$2.4, 1984 - \$2.8) owing by officers and employees of the Company and its subsidiaries arising from the purchase of preferred shares of the Company as part of the Company's incentive plan. These advances are secured by the shares purchased.

5. Fixed Assets (at cost)	1986			1985	1984
	Cost	Accumulated Depreciation	Net	Net	Net
Land	\$ 153.8		\$153.8	\$120.0	\$ 97.8
Buildings	380.6	\$ 54.2	326.4	210.9	153.9
Equipment and fixtures	594.7	289.2	305.5	215.5	187.2
Leasehold improvements	128.1	63.1	65.0	50.3	55.1
	\$1,257.2	\$406.5	\$850.7	\$596.7	\$494.0

6. Leases

The Company and its subsidiaries have entered into leases for retail outlets, warehousing facilities, equipment and store fixtures.

(a) Leased assets

Property under capital leases entered into after December 30, 1978 is as follows:

	1986	1985	1984
Buildings	\$ 72.8	\$ 64.5	\$ 58.5
Equipment and fixtures	30.7	42.7	43.3
	103.5	107.2	101.8
Accumulated depreciation	44.2	48.4	40.7
	\$ 59.3	\$ 58.8	\$ 61.1

(b) Lease obligations

Minimum lease commitments together with the present value of the obligations under capital leases entered into after December 30, 1978 are as follows:

	Capital Leases Entered into after December 30, 1978	Other Leases		
		Gross Liability	Expected Sub-Lease Income	Expected Net Liability
For the year				
1987	\$ 15.6	\$ 75.2	\$ 24.3	\$ 50.9
1988	12.8	70.5	21.2	49.3
1989	10.3	65.6	17.9	47.7
1990	10.4	59.8	15.5	44.3
1991	20.1	52.2	13.1	39.1
Thereafter to 2023	84.9	303.0	60.1	242.9
Total minimum lease payments	154.1	\$626.3	\$152.1	\$474.2
Less amounts representing executory costs and interest at 13.2%	79.2			
Total obligations	74.9			
Less current portion	6.3			
Long term obligations	\$ 68.6			

(c) Retroactive application of capitalization of leases entered into before December 31, 1978 would have increased net earnings in 1986 by \$0.9 (1985 - \$0.3, 1984 - \$0.8), and assets and obligations would have increased by \$46.9 (1985 - \$59.6, 1984 - \$66.6) and \$68.1 (1985 - \$89.4, 1984 - \$96.3) respectively.

7. Long Term Debt	1986	1985	1984
Debentures			
12 1/2%, due 1990	\$ 35.0	\$ 35.0	\$ 35.0
Series 2, 12 1/4%, due 1994	35.0	35.0	35.0
Series 3, 11 5/8%, due 1992	50.0	50.0	
Series 4, 11%, due 1995	40.0	40.0	
Series 5, 10%, due 2006	50.0		
Series 6, 9 3/4%, due 2001	75.0		
Series 7, 10%, due 2001	75.0		
Term loans			
LIBOR plus 3/8% - 3/4%, due 1992 (U.S. \$13.0)	18.1	17.3	16.7
Repaid in 1986 and 1985		15.0	30.4
Mortgages at a weighted average interest rate of 10.1%, due 1988 - 2004 (including U.S. \$5.2)	25.5	28.5	22.2
Other long term debt at a weighted average interest rate of 8.9%, due 1987 - 2014 (including U.S. \$20.9)	39.5	45.0	35.0
	443.1	265.8	174.3
Less payable within one year	12.2	15.1	3.1
	\$430.9	\$250.7	\$171.2

The Series 5 and Series 6 debentures are retractable annually commencing 1996 and 1993 respectively. The Series 7 debentures are retractable in 1991 and 1996. Repayments of long term debt, at the earlier of maturity or first retraction date, for the next five years are as follows:

1987 - \$12.2; 1988 - \$6.8; 1989 - \$4.8; 1990 - \$38.2; 1991 - \$78.6

8. Capital Stock	Number of shares issued			Paid-up-capital		
	1986	1985	1984	1986	1985	1984
				(in millions of dollars)		
First preferred shares						
First series	439,652	439,652	439,652	\$ 22.0	\$ 22.0	\$ 22.0
Second series	343,369	352,169	361,144	11.3	11.6	12.0
	<u>783,021</u>	<u>791,821</u>	<u>800,796</u>			
Second preferred shares						
First series	300,000	300,000	300,000	30.0	30.0	30.0
Second series	250,000	250,000	250,000	25.0	25.0	25.0
Third series	3,000,000			75.0		
	<u>3,550,000</u>	<u>550,000</u>	<u>550,000</u>			
Junior preferred shares						
First series	11,500	11,600	16,400	1.2	1.2	1.6
Second series	13,000	13,000	13,000	1.3	1.3	1.3
Third series	22,500	22,500	22,500	2.2	2.2	2.2
Fourth series	9,130	10,450	13,750	0.9	1.1	1.4
	<u>56,130</u>	<u>57,550</u>	<u>65,650</u>			
Total preferred shares				168.9	94.4	95.5
Common shares	71,390,384	71,305,892	71,003,716	104.5	104.1	103.2
Total capital stock				<u>\$273.4</u>	<u>\$198.5</u>	<u>\$198.7</u>

Share Description:

First preferred shares (authorized - 1,000,000)

First series - \$2.40 cumulative dividend redeemable at \$50.

Second series - \$3.70 cumulative dividend redeemable at \$70. In each fiscal year the Company is obligated to apply \$400,000 to the purchase of these shares for cancellation, provided that such shares are available at a price not exceeding \$67. During 1986, the Company purchased 8,800 of these shares for cancellation at a cost of \$422,500. The premium of \$132,100 on these purchases has been deducted from contributed surplus.

Second preferred shares

First series - cumulative dividend with floating rate equal to one-half of bank prime rate plus 3/4% to 7/8%, redeemable at \$100, retractable at the option of George Weston Limited on December 1, 1990.

Second series - cumulative dividend with floating rate equal to one-half of bank prime rate plus 1 1/4%, redeemable at \$100, retractable at the option of George Weston Limited on December 1, 1991.

Third series - \$1.825 cumulative dividend redeemable at \$25, retractable at the option of the holder on September 1, 1993. These shares were issued July 9, 1986 by way of a public offering.

Junior preferred shares

First series - \$9.00 cumulative dividend, redeemable after June 6, 1990 at \$100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by 0.02375.

Second series - \$12.00 cumulative dividend, redeemable after October 7, 1991 at \$100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by 0.03.

Third series - cumulative dividend with floating rate equal to $\frac{2}{3}$ of average bank prime rate plus $\frac{3}{4}\%$, redeemable after August 6, 1992 at \$100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by 0.0375.

Fourth series - cumulative dividend with floating rate equal to $\frac{2}{3}$ of average bank prime rate plus $\frac{3}{4}\%$, redeemable after May 16, 1993 at \$100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by 0.06375.

In 1986 the Company issued 24,916 common shares for a consideration of \$142,000 on conversion of 100 junior preferred shares, first series and 1,320 junior preferred shares, fourth series.

In 1986 the Company issued 59,576 common shares for cash of \$276,684 on exercise of employee stock options. The following options, which have been granted at the market price on the day preceding the grant, are outstanding at January 3, 1987:

<u>Number of employees</u>	<u>Number of common shares</u>	<u>Exercise price per share</u>	<u>Option expiry date</u>
5	120,500	\$ 2.375	June 6, 1990
2	374,000	\$ 3.00	Oct. 7, 1991
5	72,256	\$ 6.375	May 16, 1993
37	299,000	\$ 9.188	Jan. 17, 1995
89	878,000	\$ 11.00	Jan. 27, 1993
	<u>1,743,756</u>		

The exercise of the conversion privileges and stock options would not materially dilute earnings per share.

Common shares

The number of common shares and per common share amounts have been adjusted to reflect the two-for-one share split approved by the shareholders at the Annual Meeting on April 29, 1986.

9. Acquisitions

Effective December 3, 1986 the Company acquired 26 stores and certain other assets in St. Louis, Missouri, from The Kroger Company. Other acquisitions completed during the year include: the assets of Hickman, Coward and Wattles, Inc. and Kotok & Heims Corporation, both U.S. wholesale operations based in Buffalo, New York, effective December 30, 1985 and January 28, 1986 respectively, and the assets of Capitol Stores Ltd., a six store chain in Halifax, Nova Scotia, effective June 29, 1986.

These transactions have been accounted for using the purchase method with the results of operations included in these financial statements since the date of acquisition. Details of the acquisitions are as follows:

	Kroger	Other	Total
Net assets acquired			
Working capital	\$ 14.8	\$ 12.6	\$27.4
Fixed assets	47.0	10.9	57.9
Property under capital leases	10.3		10.3
Long term debt		(3.8)	(3.8)
Obligations under capital leases	(10.3)		(10.3)
Cash consideration	\$61.8	\$ 19.7	\$81.5

10. Pensions

Current actuarial estimates indicate that the present value of pension fund assets is \$235.0 and the present value of accrued pension benefits is \$239.0. In addition, a subsidiary is a participant in union-sponsored multiemployer pension plans. The share of these plans' unfunded vested liabilities allocable to the subsidiary, for which it may be contingently liable, is not determinable by the plans' administrators.

11. Other Information

(a) Segmented information

The Company's only significant activity is food distribution. Geographically segmented information is as follows:

	Canada			United States		
	1986	1985	1984	1986	1985	1984
Operating income	\$ 130.9	\$ 116.5	\$ 103.8	\$ 32.5	\$ 35.0	\$ 33.9
Total assets	\$1,219.2	\$1,035.9	\$877.3	\$758.8	\$493.8	\$387.0

(b) Contingent liabilities

Endorsements and guarantees in the normal course of business amount to \$93.4. Gross rentals under leases assigned at the time of sale of United States divisions amount to \$99.1.

In addition to various claims arising in the normal course of business, there is a class action lawsuit, involving a substantial amount, filed by a former employee of a United States division sold in 1982. Although the outcome of this action cannot be predicted with certainty, management believes that it will not have a material effect on the Company's financial position.

(c) Related parties

The Company's majority shareholder, George Weston Limited and its subsidiaries are related parties. It is the Company's policy to conduct all transactions with related parties on normal trade terms.

12. Subsequent Event

Effective February 2, 1987, Loblaw Companies Limited completed the acquisition of the franchise business of Domgroup Ltd. operated under the Mr. Grocer name in Ontario at a cost of \$36.5.

CORPORATE STRUCTURE, DIRECTORS AND SENIOR MANAGEMENT

LOBLAW COMPANIES LIMITED

DIRECTORS

W. Galen Weston
Chairman and President
George Weston Limited

Richard J. Currie
President, Loblaw Companies Limited

Charles M. Humphrys*
Management Consultant

Robert H. Kidd*
Senior Vice President and
Chief Financial Officer
George Weston Limited

Roger A. Lindsay
Executive Vice President
Wittington Investments, Limited

Arthur H. Mingay*
Former Chairman
Canada Trust

David A. Nichol
Executive Vice President
Loblaw Companies Limited

George B. Robertson, Q.C.*
Partner, McInnes Cooper & Robertson
Barristers and Solicitors

* member - Audit Committee

HONORARY CHAIRMAN

George C. Metcalf

HONORARY DIRECTOR

Richard G. Meech, Q.C.

CORPORATE OFFICERS

W. Galen Weston
Chairman of the Board

Richard J. Currie
President

Raymond J. Addington
Executive Vice President

David A. Nichol
Executive Vice President

David M. Williams
Executive Vice President

Brian Y. Davidson
Senior Vice President,
Business Development

David K. Bragg
Vice President, Controller

Wayne E. East
Vice President,
Information Services

James H. Farrell
Vice President, General Counsel
and Secretary

John N. McCullough
Vice President, Assistant General
Counsel

John W. Thompson
Vice President, Finance

Richard P. Mavrinac
Tax Officer

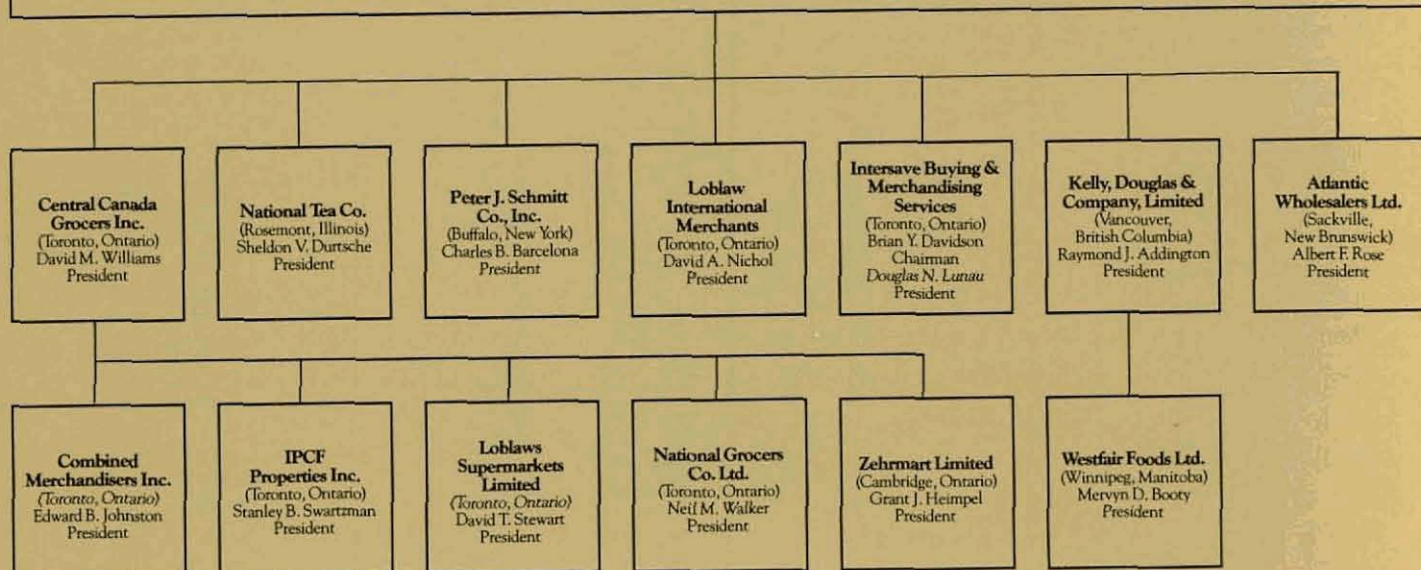
Donald G. Reid
Treasurer

Stephen A. Smith
Assistant Controller

Stewart E. Green
Assistant Secretary

Dorothy M. Leamen
Assistant Secretary

The average age and years of service
of the Officers and operating
Presidents are 46 and 14 years
respectively.



ANNUAL GENERAL MEETING

April 29, 1987 11:00 a.m. Constitution Hall, Hall A
Metropolitan Toronto Convention Centre
255 Front Street West, Toronto, Ontario

CORPORATE DIRECTORY**TRANSFER AGENT AND
REGISTRAR**

National Trust Company
Toronto, Montreal, Vancouver,
Winnipeg, Calgary, Regina, Halifax

STOCK LISTINGS

Toronto, Montreal and
Vancouver Stock Exchanges

EXECUTIVE OFFICES

22 St. Clair Avenue East
Toronto, Ontario
M4T 2S8

GENERAL COUNSEL

Borden & Elliot

AUDITORS

Thorne Ernst & Whinney
Toronto, Ontario

COMMON DIVIDEND PAYMENT DATES

Apr. 1
July 1
Oct. 1
Dec. 30

VALUATION DAY VALUE OF COMMON SHARES

\$2.875

